

COMMISSIONERS' SCATHING REPORT ON I.O.F.

**SAY IT CLAIMS TO VIOLATE ITS CONTRACTS AS
CONSTRUED BY UNITED STATES COURTS—
UNITED STATES OFFICIALS ADVISE MEM-
BERS TO PAY OLD RATES AND TO REFUSE
TO RECOGNISE ATTEMPTED LIEN ON POL-
ICIES—COMMISSIONERS COMPLAIN OF MIS-
REPRESENTATION—UNION TRUST COM-
PANY CONTRACT TO BE TERMINATED.**

Insurance Commissioners of the States of Illinois, Nebraska and Wisconsin have issued a scathing report as the result of their recent examination of the Independent Order of Foresters, of Toronto. The officials named joined in a memorandum attached to the examination reports, stating that the attempted levy of the lien on the policies of the pre '99 members is void, according to United States law, and advising the members of the Society to take the option of paying assessments at their old rates and to refuse to recognize the lien or interest, and to insist upon payment of the benefits in full.

The memorandum further strongly advises United States members to protect their past over-payment accumulations by continuing their memberships, and states that the Society can easily make a readjustment to an adequate and permanent basis upon a number of different plans, and that the plan adopted is the one which has been uniformly condemned by the United States courts.

The Order has 140,000 members in the United States, of whom 15,000 are in Illinois, and about 5,000 each in Wisconsin and Minnesota. While the examination was in progress, the Order under date of November 7, notified each of the departments engaged in the examination, that it would withdraw from that State and surrender its license to do business therein.

PRINCIPAL POINTS.

The memorandum accompanying the printed report, of almost 200 pages, is reprinted herewith and will be found pungent reading. The principal points made by officials in this memorandum are as follows:

- (1). The famous Union Trust Company contract is to be finally terminated in 1921.
- (2). According to United States law, the claim to reduce the benefit certificates to the members by lien is void.
- (3). But it is claimed by the Order that as it is a Canadian Order, it can deliberately violate the obligations of its contracts in the United States, as construed by United States courts, though such act would be absolutely void on part of a United States Society.
- (4). United States members are advised to continue to pay old rates, to refuse to recognise the attempted levy of the lien and in the event of maturity of the contract to insist upon payment of the full amount without deduction of lien or interest.
- (5). Officers of the Order were informed prior to the passing of the Canadian Act that its action was contrary to the law in the different states of the United States.
- (6). The commissioners complain of misrepresentations as to the attitude of their departments in regard to the proposed re-adjustment.
- (7). There are any number of other plans of re-adjustment which might have been adopted upon

which the question of a violation of the contract rights of the members would not arise.

Following is the text of the commissioners' memorandum:

DIVERSION OF BENEFIT FUNDS.

The report shows that the sum of \$296,387.75 has been diverted from the benefit fund to the expense or general fund. This diversion occurred prior to the incumbency of the present chief executive, and while there has been an attempted repayment from moneys belonging to the benefit funds, there has been no repayment from the general fund. The reason assigned by the society is, that there has since been no money in the expense fund for making such repayment. Attention is also directed to the recommendation with regard to a repayment of the loan from the sick and funeral fund to the general fund and to the Orphans' Home.

UNION TRUST COMPANY TRANSACTIONS.

The Society does not dispute the fact that the contracts with the Union Trust Company have been unfortunate. These contracts involve two separate propositions. One is the series of agreements relating to the investment of a proportion of the funds of the Society by the trust company to pay a net return to the Society of 4 per cent. The other is the so-called "rejected assets" transaction resulting from a cancellation of \$1,500,000 of the capital stock of the Union Trust Company held by the Society for which the Society took \$1,500,000 of securities which continued to be handled by the Union Trust Company. These assets were carried on the Society's books in a so-called "rejected assets" account at a flat \$1,500,000, and a list of securities amounting to that sum was annually made for the reports to the Insurance Departments. It was only upon inquiry by the examiners and at their instigation that a settlement was had with the Union Trust Company by which these assets were turned over to the Society on December 31st, 1911.

NO RECORDS AS TO REJECTED ASSETS.

The Society has no records whatever by which it may be determined how these assets were handled, or whether a correct and proper settlement has been made. At the request of the examiners, a demand was made by the Society upon the Union Trust Company for such a statement, which was refused, on the ground that the preparation of such a statement would involve an undue amount of work, and the Society has failed to provide any means of verifying the correctness of the settlement, in effect taking the position that a showing of a profit of about \$300,000 on the transaction, in addition to 5 per cent. annual interest, should close the matter.

SPECIAL INVESTMENT ACCOUNT.

The necessity for an accounting of the Rejected Assets account was further emphasized by the examiners, because of large advances made by the Society to the Union Trust Company during the years 1908, 1909 and 1910, and six months of 1911, amounting in the aggregate to and \$3,770,500.00. The report states that this has all the appearance of what is generally known as "Year End Transactions," the sums advanced during the year being offset by the turning over of securities by the Union Trust Company to the Foresters, during and at the close of the year. On these advances the Foresters have received only 4 per cent. interest, but on the testimony of the Supreme Chief Ranger, the difference between the amount earned and the 4 per cent. went into the Rejected Assets Account, upon which no accounting has been made.

The Supreme Chief Ranger states that there was a profit of over \$300,000.00 on the handling of these rejected assets, but there is no evidence of record with the Society as to what this profit actually was, and said officer insists that his word alone should be taken for the correctness of this statement.

INVESTMENTS THROUGH UNION TRUST COMPANY.

The rate of interest derived by the Society under its contract for the investment of a proportion of its assets at a rate of 4 per cent. net is very disadvantageous to